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REPORT
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H 127

EFFECTING THE REDUCTIONS IN NET EXPENDITURES FOR MILK PRICE SUPPORT ACTIVITIES AS REQUIRED BY THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985

ORIGINAL

FEBRUARY 26, 1986.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. DE LA GARZA, from the Committee on Agriculture, submitted the following

REPORT

[To accompany H.R. 4188]

The Committee on Agriculture, to whom was referred the bill (H.R. 4188) having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

That section 201(d)(2) of the Agricultural Act of 1949 is amended by—

(1)(A) striking out "The" in subparagraph (B) and inserting in lieu thereof "Except as provided in subparagraph (E), the"; and

(2) adding at the end thereof the following:

"(E)(i) The Secretary—

"(I) notwithstanding the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) and the order issued by the President under section 252 of such Act on February 1, 1986 (or any substitute order issued by the President under section 252 at a later date, based on a Joint Resolution of Congress enacted under section 274(f) of such Act), and

"(II) in lieu of making any reduction in payments for the purchase of milk or the products of milk under this subsection during the fiscal year ending September 30, 1986, under such order (or substitute order),

shall increase the amount of the reduction (measured in cents per hundredweight of milk marketed) under subparagraph (A) during the period beginning on April 1, 1986, and ending on September 30, 1986, as the sole means of achieving any reduction in budget outlays under the milk price support program that otherwise would be required under either such order and only for the purpose of substituting for any reduction in payments made by the Secretary for the purchase of milk or the products of milk under either such order.

"(ii) The aggregate amount resulting from the increase under clause (i) in the reduction under subparagraph (A) may not exceed the aggregate amount of the reduction in budget outlays under the milk price support program as estimated by the Secretary, that otherwise would have been achieved under either such order by reducing payments made by the Secretary for the purchase of milk or the products of milk under this subsection during the fiscal year ending September 30, 1986.".

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Sec. 2. The amendment made by section 1 shall take effect immediately before March 1, 1986.

Brief Explanation

H.R. 4188, as amended, contains just one provision—that is, a provision to increase, temporarily, the reduction in the price received by producers for milk to cover excess deficit reduction requirements under the Balanced Budget and Emergency Deficit Control Act of 1985.

Purpose and Need

I.

H.R. 4188, as amended, is designed solely to revise the provisions of the Agricultural Act of 1949 (as added by the Food Security Act of 1985) that provide for a reduction in the price received by producers for milk (produced in the contiguous 48 States and marketed for commercial use) to cover deficit reduction requirements under the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177).

The bill will add language to the 1949 Act to provide for an increase in the reduction in the price of milk during the period beginning April 1, 1986, and ending September 30, 1986, for such purpose. This revision is consistent with the overall agreement on dairy policy discussed by the House and Senate conferees on the Food Security Act of 1985 in December, 1985. It was anticipated at that time that the required budget deficit reductions under the then recently-passed Balanced Budget and Emergency Deficit Control Act of 1985 should be achieved through such an increase in the reduction in the milk prices received by producers, using the price reduction mechanism contained in the Food Security Act.

II

Under existing law, a reduction in the prices received by producers for milk is called for during the period beginning April 1, 1986, and ending September 30, 1987, to help cover the costs of the whole herd buyout program under the Food Security Act. The amount of the required reduction in the price of milk during calendar year 1986 is set at 40 cents per hundredweight of milk.

The Balanced Budget and Emergency Deficit Control Act of 1985 mandates a program under which a sequestration order will go into effect on March 1, 1986, to reduce outlays for all Federal programs in fiscal year 1986. The effect on outlays under the Federal dairy price support program is to require a reduction of approximately $80 million in 1986.

Under current procedures being followed by the Department of Agriculture, such reductions will occur through a 4.3 percent reduction in the payment checks issued to those who sell milk and milk products to the Commodity Credit Corporation (the price of milk is supported through such purchases).

The net effect of such an automatic deduction from payment checks will be a 55 cent per hundredweight decrease in the effective price support for milk. However, if the Department of Agricul-

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ture discounts the amount paid to those who sell to the Commodity Credit Corporation by 4.3 percent, it is unlikely that net outlays for this program will fall by the necessary amount to achieve the reductions sought in budget outlays.

A 4.3 percent reduction of the amount paid to dairy processors from March through September will save the Commodity Credit Corporation a small amount of money on whatever it actually buys. But, this approach will only save the full amount if the reduced farm prices that will ensue reduce production and sales of surplus product to the Commodity Credit Corporation. We know from experience that milk production does not fall quickly when the price of milk drops. It is very unlikely, therefore, that reducing dairy prices by 55 cents per hundredweight—the farm price effect of reducing processor payments by 4.3 percent—will save $80 million in outlays (as needed to meet 1986 deficit reduction targets under Public Law 99-177) in the remainder of the fiscal year.

Further, this manner of reduction is in direct contrast with the agricultural policy that was subject of long deliveration and compromise during the formulation of the Food Security Act of 1985.

During the consideration of that measure, it was agreed that the price support level was to be maintained at the levels specified in the Act during calendar year 1986. While it was anticipated that the dairy price support program would be subject to the budget reduction requirements set under the Balanced Budget and Emergency Deficit Control Act of 1985, it was expected that outlay savings for fiscal year 1986 would be made by the Department of Agriculture through a reduction in the price of milk received by producers, applicable to all milk marketed for commercial use during the 1986 calendar year. The funds represented by the reduction in the price of milk would be collected and remitted to the Commodity Credit Corporation by handlers that buy milk from producers.

In enacting the Food Security Act of 1985, Congress directly addressed the problems of increasing dairy surpluses and large Government outlays, and the need to assist the dairy farm sector deal with additional financial and economic difficulties. The 1985 Act established a program that provides a safety net for farmers' income while introducing responsible policy to reduce the increasing surplus of milk.

In developing that legislation, Congress chose to maintain the milk price support level and reduce milk production and the costs of the dairy price support program through the use of a program designed to reduce the size of the national dairy herd. As a result, dairy farmers will, on April 1, begin to pay a 40 cents per hundredweight of milk marketed assessment in order to provide funding for this herd reduction program. It is not sound agricultural policy to add a 55 cent price reduction on top of this 40 cent assessment.

III

H.R. 4188, as amended, will implement the original intent of the drafters of the Food Security Act of 1985 that outlay reductions required under Public Law 99-177 be implemented in a manner that meets the required deficit reductions in the least disruptive fashion in the dairy industry.

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It will require that the sequestration requirement with regard to the Commodity Credit Corporation cash outlays for dairy products in fiscal year 1986 be implemented through a reduction in the price received by producers of milk, it should be noted that the bill will require the Secretary of Agriculture, in carrying out the sequestration requirements, to use the method of reduction provided by the bill as the only method of complying with the outlay reduction requirements of Public Law 99-177.

SECTION-BY-SECTION ANALYSIS

Section 1

Section 1 will revise section 201(d)(2) of the Agricultural Act of 1949 (as added by the Food Security Act of 1985) which provides for a reduction in the price received by producers for all milk produced in the contiguous 48 States and marketed for commercial use.

Subparagraphs (A) and (B) of section 201(d)(2) require a reduction during the period beginning April 1, 1986, and ending September 30, 1987, to help cover the costs of the whole herd buyout program. The amount of the required reduction in the price of milk during calendar year 1986 is set at 40 cents per hundredweight.

Subparagraph (C) of section 201(d)(2) provides that the funds represented by the reduction in the price of milk will be collected and remitted to the Commodity Credit Corporation by milk handlers and producer-handlers. Subparagraph (D) provides that funds remitted to the Commodity Credit Corporation will be considered as included in the payments to a producer of milk for the purposes of the minimum price provisions of the milk marketing order program.

Section 1 will add a new subparagraph (E) to section 201(d)(2) to require an increase in the reduction in the price of milk during the period beginning April 1, 1986, and ending on September 30, 1986, to cover the fiscal year 1986 deficit reduction requirements under the Balanced Budget and Emergency Deficit Control Act of 1985.

Specifically, new subparagraph (E) provides that, notwithstanding Public Law 99-177 and the sequestration order for fiscal year 1986 under that legislation and in lieu of the reduction in Commodity Credit Corporation cash payments for dairy product purchases in fiscal year 1986 planned by the Secretary of Agriculture to meet the reqirements of the order, the Secretary must reduce further the price received by producers of milk as the only method of complying with the sequestration order. The increased reduction will be an amount, per hundredweight of milk, no greater than needed to achieve the reduction in outlays for milk price support activities that otherwise would be achieved under the sequestration order.

Section 2

Section 2 provides that the amendment to section 201(d)(2) of the Agricultural Act of 1949 made by section 1 will go into effect immediately before March 1, 1986. This effective date is needed to ensure that the sequestration order under Public Law 99-177 for fiscal year 1986 issued by the President on February 6, 1986, and scheduled to become effective March 1, 1986, is vitiated with re-

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spect to the dairy price support program under the Agricultural Act of 1949.

COMMITTEE CONSIDERATION

HEARINGS

The Subcommittee on Livestock, Dairy, and Poultry held no hearings specifically on H.R. 4188. However, extensive public hearings were held on the milk price reduction provisions of the Food Security Act of 1985 that H.R. 4188 amends. The Subcommittee held hearings in Washington, D.C. on March 20, 1985; March 27, 1985; and June 5, 1985. Field hearings were held in Holmen, Wisconsin, on April 11, 1985; Burlington, Vermont, on April 13, 1985; Okeechobee, Florida, on April 19, 1985; Auburn and Binghamton, New York, on June 28, 1985, and Sioux Falls, South Dakota, on July 26, 1985. At each hearing witnesses commented extensively on the proposed dairy price reduction provisions later enacted in the Food Security Act of 1985 and revised by H.R. 4188.

In addition, on January 29, 1986, the Committee on Agriculture held a hearing on the Balanced Budget and Emergency Deficit Control Act of 1985. The Committee heard testimony from the Department of Agriculture. The Department witnesses indicated that the required reductions in outlays under the milk price support program under Public Law 99-177 could be achieved using the price reduction mechanism contained in the Food Security Act of 1985, although no decisions had been made at that time on how dairy program cuts under Public Law 99-177 would be implemented.

SUBCOMMITTEE MARKUP

On February 20, 1986, the Subcommittee on Livestock, Dairy, and Poultry met to consider H.R. 4188. Subcommittee Chairman Coelho called the meeting to order and asked for the consideration of the bill. Mr. Jeffords, ranking minority member of the Subcommittee, and author of H.R. 4188, gave a brief explanation of the bill. Mr. Jeffords then offered an amendment to make the bill's beginning date for the increased reduction in the price received by milk producers effective April 1, 1986, and tie the proposed increase to the assessment required under existing law.

Mr. Gunderson moved that the Subcommittee adopt the Jeffords amendment. The Subcommittee agreed to the amendment by voice vote.

Mr. Jeffords moved that H.R. 4188, as amended, be reported favorably to the full Committee. The Subcommittee agreed by voice vote to favorably report the bill, as amended, to the full Committee.

COMMITTEE MARKUP

The Committee on Agiculture held a business meeting on Tuesday, February 25, 1986, to consider H.R. 4188, as amended, and reported by the Subcommittee on Livestock, Dairy, and Poultry. Mr. Coelho, Chairman of the Subcommittee, was recognized and briefly explained the bill for the Members. Howard Conley, staff economist, was called upon to report the budget effect of the bill, as

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amended. Mr. Conley reported that while a formal Congressional Budget Office (CBO) analysis was not yet available, an informal analysis by CBO staff reflects that the bill would have no cost to the Federal Government because, under the bill, the Secretary of Agriculture will receive additional offsetting receipts to the Commodity Credit Corporation by increasing the reduction in prices paid to producers of milk by an amount equal to the savings the Department of Agriculture would realize by the announced 4.3 percent reduction in such prices paid under the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177).

Mr. Olin and Mr. Marlenee expressed reservations about the bill. Mr. Gunderson explained that the bill simply conforms the dairy program to the requirements of Public Law 99-177. Mr. Gunderson also said that the bill will help save the taxpayers approximately $80 million. Mr. Jeffords expressed his view that if the Supreme Court ultimately invalidates Public Law 99-177, then the increased reduction in prices received, as required by the bill, would be refunded to the producers.

Committee Counsel agreed with the interpretation of the bill expressed by Mr. Jeffords, relating that Department of Agriculture officials had informally stated their intention to refund the additional assessment in the event the Supreme Court eventually invalidates Public Law 99-177.

Mr. Jones of Tennessee moved that the bill be reported favorably to the House. The Committee, by voice vote, in the presence of a quorum, ordered H.R. 4188, as amended, reported to the House with a recommendation that it do pass.

Administration Position

At the time of the filing of this report, the Committee had not received a report from the U.S. Department of Agriculture concerning H.R. 4188, as amended.

Budget Act Compliance (Section 308 and Section 403)

The provisions of clause 2(l)(3)(b) of Rule XI of the Rules of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974 (relating to estimates of new budget authority or new or increased tax expenditures) are not considered applicable. The estimate and comparison required to be prepared by the Director of the Congressional Budget Office under clause 2(l)(3)(C) of Rule XI of the Rules of the House of Representatives and section 403 of the Congressional Budget Act of 1974 were not received by the Committee prior to the filing of this report. The Committee was advised that it is anticipated that such an estimate and comparison will be available prior to consideration of the bill on the Floor of the House. A preliminary cost estimate of H.R. 4188, as amended, made by staff of the Congressional Budget Office shows that the bill would have no cost to the Federal Government.

Inflationary Impact Statement

Pursuant to clause 2(l)(4) of Rule XI of the Rules of the House of Representatives, the Committee estimates that enactment of H.R.

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4188, as amended, will have no inflationary impact on the national economy.

Oversight Statement

No summary of oversight findings and recommendations made by the Committee on Government Operations under clause 2(b)(2) of Rule X of the Rules of the House of Representatives was available to the Committee with reference to the subject matter specifically addressed by H.R. 4188.

No specific oversight activities other than the hearings detailed in this report were conducted by the Committee within the definition of clause 2(b)(1) of Rule X of the Rules of the House of Representatives.

Changes in Existing Law

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and exising law in which no change is proposed is shown in roman):

Agricultural Act of 1949

* * * * * * *

Sec. 201. The Secretary is authorized and directed to make available (without regard to the provisions of title III) price support to producers for tung nuts, soybeans, honey, milk, sugar beets, and sugarcane as follows:

* * * * * * *

(d) Notwithstanding any other provision of law—

(1)(A) During the period beginning on January 1, 1986, and ending on December 31, 1990, the price of milk shall be supported as provided in this subsection.

(B) During the period beginning on January 1, 1986, and ending on December 31, 1986, the price of milk shall be supported at a rate equal to $11.60 per hundredweight for milk containing 3.67 percent milkfat.

(C)(i) During the period beginning on January 1, 1987, and ending on September 30, 1987, the price of milk shall be supported at a rate equal to $11.35 per hundredweight for milk containing 3.67 percent milkfat.

(ii) Except as provided in subparagraph (D), during the period beginning on October 1, 1987, and ending on December 31, 1990, the price of milk shall be supported at a rate equal to $11.10 per hundredweight for milk containing 3.67 percent milkfat.

(D)(i) Subject to clause (ii), if for any of the calendar years 1988, 1989, and 1990, the level of purchases of milk and the products of milk under this subsection (less sales under section 407 for unrestricted use), as estimated by the Secretary on January 1 of such calendar year, will exceed 5,000,000,000 pounds (milk equivalent), on January 1 of such calendar year, the Secretary shall reduce by 50 cents the rate of price support for milk as in effect on such date.

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(ii) The rate of price support for milk may not be reduced under clause (i) unless—

(I) the milk production termination program under paragraph (3) achieved a reduction in the production of milk by participants in the program of at least 12,000,000,000 pounds during the 18 months of the program; or

(II) the Secretary submits to Congress a certification, including a statement of facts in support of the certification of the Secretary, that reasonable contract offers were extended by the Secretary under such program but such offers were not accepted by a sufficient number of producers making reasonable bids for contracts to achieve such a reduction in production.

(E) If for any of the calendar years 1988, 1989, and 1990, the level of purchases of milk and the products of milk under this subsection (less sales under section 407 for unrestricted use), as estimated by the Secretary on January 1 of such calendar year, will not exceed 2,500,000,000 pounds (milk equivalent), the Secretary shall increase by 50 cents the rate of price support for milk in effect on such date.

(F) The price of milk shall be supported through the purchase of milk and the products of milk.

(2)(A) During the period beginning on April 1, 1986, and ending on September 30, 1987, the Secretary shall provide for a reduction to be made in the price received by producers for all milk produced in the United States and marketed by producers for commercial use.

(B) [The] *Except as provided in subparagraph (E), the* amount of the reduction under subparagraph (A) in the price received by producers shall be—

(i) the period beginning on April 1, 1986, and ending on December 31, 1986, 40 cents per hundredweight of milk marketed; and

(ii) during the first 9 months of 1987, 25 cents per hundredweight of milk marketed.

(C) The funds represented by the reduction in price, required under subparagraph (A) to be applied to the marketings of milk by a producer, shall be collected and remitted to the Commodity Credit Corporation, at such time and in such manner as prescribed by the Secretary, by each person making payment to a producer for milk purchased from such producer, except that in the case of a producer who markets milk of the producer's own production directly to consumers, such funds shall be remitted directly to the Corporation by such producer.

(D) The funds remitted to the Corporation under this paragraph shall be considered as included in the payments to a producer of milk for purposes of the minimum price provisions of the Agricultural Adjustment Act (7 U.S.C. 601 et seq.), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937.

(E)(i) The Secretary—

(I) notwithstanding the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) and the order issued by the President under section 252 of such Act on February 1, 1986 (or any substitute order issued by the President under 252 at a later date, based on a Joint Resolution of Congress enacted under section 274(f) of such Act), and

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(II) in lieu of making any reduction in payments for the purchase of milk or the products of milk under this subsection during the fiscal year ending September 30, 1986, under such order (or substitute order);

shall increase the amount of the reduction (measured in cents per hundredweight of milk marketed) under subparagraph (A) during the period beginning on April 1, 1986, and ending on September 30, 1986, as the sole means of achieving any reduction in budget outlays under the milk price support programs that otherwise would be required under either such order and only for the purpose of substituting for any reduction in payments made by the Secretary for the purchase of milk or the products of milk under either such order.

(ii) The aggregate amount resulting from the increase under clause (i) in the reduction under subparagraph (A) may not exceed the aggregate amount of the reduction in budget outlays under the milk price support program, as estimated by the Secretary, that otherwise would have been achieved under either such order by reducing payments made by the Secretary for the purchase of milk or the products of milk under this subsection during the fiscal year ending September 30, 1986.

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